



2008 - 2009 Financial Report

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June 29, 2010

Dr. Carolyn W. Meyers, President
and The Board of Visitors
Norfolk State University
700 Park Avenue
Norfolk, VA 23504

I am pleased to submit the 2008-2009 Financial Statements for Norfolk State University. These financial statements are prepared in accordance with generally accepted accounting principles, and represent a comprehensive record of the financial position and results of operations for the year ended June 30, 2009.

My staff and I believe the University's system of internal accounting controls assures proper recording of transactions. We accept responsibility for the integrity of the information presented and believe that the data presented is accurate in all material respects. We further believe that the accompanying statement of net assets, statement of revenues, expenses, changes in net assets, and statement of cash flows along with the accompanying notes and schedules, fairly presents the financial position of the University.

I would like to recognize and thank the Finance and Business Division staff for their efforts in maintaining the fiscal system through out the year, and especially for the preparation and presentation of these statements.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ralph W. Johnson", with a stylized flourish at the end.

Ralph W. Johnson
Vice President for Finance and Business

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

The following Management's Discussion and Analysis (MD&A) is required supplemental information under the new Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily readable analysis of Norfolk State University's (University) financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2009. Note that although the University's foundations identified as component units under GASB Statement 39 are reported in the financial statements, they are excluded from this MD&A, except where specifically noted. Comparative numbers, where presented, are for the fiscal year ended June 30, 2008. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, notes to financial statements, and other supplementary information. University management is responsible for all of the financial information presented, including this discussion and analysis.

The three basic financial statements are the Statement of Net Assets (balance sheet), the Statement of Revenues, Expenses, and Changes in Net Assets (operating statement), and the Statement of Cash Flows. The following analysis discusses elements from each of these statements, as well as an overview of the University's activities.

Statement of Net Assets

The Statement of Net Assets presents the University's assets, liabilities, and net assets as of the end of the fiscal year. The purpose of this statement is to present to the financial statement readers a fiscal snapshot at June 30, 2009. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the University's operations. They are also able to determine how much the University owes vendors and creditors.

Net assets are divided into three major categories. The first category, "Invested in capital assets, net of related debt," represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. The next category is "Restricted net assets-Expendable" which are restricted resources available for expenditure by the University, but must be spent for purposes as determined by the donors and/or other entities that have placed time or purpose restrictions on the use of the asset. Unrestricted net assets are available to the University for any lawful purpose in support of educational, general, and auxiliary activities.

Statement of Net Assets
(amounts in thousands)

	As of June 30,		Increase/(Decrease)	
	2009	2008	Amount	Percent
Assets:				
Current	\$ 27,338	\$ 23,357	\$ 3,981	17.0%
Capital, net of accumulated depreciation	146,907	131,569	15,338	11.7%
Other non-current	11,332	32,119	(20,787)	-64.7%
Total assets	185,577	187,045	(1,468)	-0.8%
Liabilities:				
Current	27,055	22,418	4,637	20.7%
Non-current	42,689	46,462	(3,773)	-8.1%
Total liabilities	69,744	68,880	864	1.3%
Net assets:				
Invested in capital assets, net of related debt	104,793	102,987	1,806	1.8%
Restricted	5,804	14,199	(8,395)	-59.1%
Unrestricted	5,236	979	4,257	434.8%
Total net assets	\$ 115,833	\$ 118,165	\$ (2,332)	-2.0%

In 2009, the University's total net assets decreased by \$2,332,096 mainly due to 2008 funds for capital projects being reverted back to the Commonwealth. The increase of \$3,981,291 in current assets is related to an increase in the University's share of cash equivalents for the Commonwealth's securities lending program and reimbursements due from the Commonwealth for maintenance reserve and library capital projects. The increase of \$15,338,030 in capital assets is attributed to an increase in construction in progress for the nearly completed student center project. The facility opened in September 2009 and will be capitalized in 2010. The reduction of \$20,786,761 in other non-current assets was mainly due to a reduction in State Non-Arbitrage Program (SNAP) portfolio investments as a result of the nearly completed student center. Current liabilities increased by \$4,637,288 due to an increase in the University's share of obligations related to the Commonwealth's securities lending program and retainage payable for capital projects. Noncurrent liabilities decreased by \$3,772,630 due to the retirement of long-term debt.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity as presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the University's operating and nonoperating revenues recognized and expenses incurred and any other revenues, expenses, gains, and losses.

Generally speaking, operating revenues are received for providing goods and services to students and other constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the University's mission. Salaries, wages and fringe benefits for faculty and staff are the largest type of operating expenses.

Nonoperating revenues are revenues received for which goods and services are not provided. For example, the University's state appropriations are nonoperating because they are provided by the state legislature without the legislature directly receiving commensurate goods and services for those revenues.

Statement of Revenues, Expenses, and Changes in Net Assets

(amounts in thousands)

	Year ended June 30,		Increase/(Decrease)	
	2009	2008	Amount	Percent
Operating revenues:				
Student tuition and fees, net of scholarship allowances of \$7,742 and \$5,972	\$ 23,982	\$ 23,305	\$ 677	2.9%
Federal grants and contracts	14,540	22,695	(8,155)	-35.9%
State grants and contracts	1,631	1,589	42	2.6%
Nongovernmental grants and contracts	1,823	1,909	(86)	-4.5%
Auxiliary enterprises, net of scholarship allowances of 9,214 and \$6,486	25,197	25,510	(313)	-1.2%
Other operating revenues	819	1,147	(328)	-28.6%
Total operating revenues	67,992	76,155	(8,163)	-10.7%
Operating expenses:				
Instruction	34,654	33,506	1,148	3.4%
Research	7,428	8,637	(1,209)	-14.0%
Public service	1,298	1,688	(390)	-23.1%
Academic support	16,788	15,064	1,724	11.4%
Student services	5,742	5,707	35	0.6%
Institutional support	11,755	12,162	(407)	-3.3%
Operation and maintenance of plant	10,166	10,279	(113)	-1.1%
Depreciation	9,515	8,376	1,139	13.6%
Student aid	15,219	13,988	1,231	8.8%
Auxiliary activities	19,706	21,265	(1,559)	-7.3%
Total operating expenses	132,271	130,672	1,599	1.2%
Operating loss	(64,279)	(54,517)	(9,762)	17.9%
Net nonoperating revenues and expenses	60,847	51,396	9,451	18.4%
Increase before other revenues, expenses, gains, and losses	(3,432)	(3,121)	(311)	10.0%
Net other revenues	1,100	11,636	(10,536)	-90.5%
Increase in net assets	(2,332)	8,515	(10,847)	-127.4%
Net assets - beginning of year	118,165	109,650	8,515	7.8%
Net assets - end of year	\$ 115,833	\$ 118,165	\$ (2,332)	-2.0%

Operating revenues primarily include tuition and fees, auxiliary enterprises and revenues from grants and contracts. The decrease of \$8,162,801 in operating revenues is mainly attributed to a change in Pell grants (\$10,931,012) presentation from operating to nonoperating revenue. The operating revenue decrease was offset by an increase in federal grants revenue (\$2,776,321). Student tuition and fees contributed to an increase of \$677,257 in operating revenues due to rate increases and enrollment growth.

Total operating expenses increased \$1,599,081 in 2009. Increases in instruction, academic support, student aid, and depreciation were offset by decreases in research, public service, institutional support, and auxiliary enterprises. Increases in federal grants expenses were offset by an overall decrease in operating costs in response to reduced appropriations received from the Commonwealth.

The increase of \$9,451,376 in nonoperating revenues and expenses is mainly attributed to the change in presentation for Pell grants. Other revenues decreased by \$10,537,228 as a result of no capital appropriations received from the Commonwealth and 2008 capital appropriations for maintenance reserve and library capital projects reverting back to the state in 2009.

Statement of Cash Flows

The final statement presented by the University is the Statement of Cash Flows. This statement presents detailed information about the institution's cash activity during the year. Operating cash flows shows the net cash used by the operating activities of the University. Significant sources of cash include student tuition and fees (\$24,032,191), grants and contracts (\$18,193,977) and auxiliary enterprises receipts (\$25,417,090). Major uses of cash include payments for salaries, wages, and fringe benefits (\$65,969,183), payments for services and supplies (\$17,398,687), payments for scholarships and fellowships (\$24,205,899), and payments for noncapitalized plant improvements and equipment (\$11,755,777).

The next section reflects the cash flows from non-capital financial activities and includes state appropriations for the University's educational and general programs and financial aid (\$51,335,654) and Pell grants (\$10,931,012). The cash flows from capital financing activities section reflect cash used for capital and related items. Primary sources of cash are proceeds from bond issues (\$5,155,244). Significant cash outflows include the purchase of capital assets (\$17,251,127), repayment of principal and interest on capital related debt (\$3,566,538), capital reversions (\$4,481,662), and interest paid on capital debt (\$1,947,828). Cash flows from investing activities include interest income on investments (\$349,510). The final section of the cash flow statement reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenue, Expenses, and Changes in Net Assets.

Statement of Cash Flows (amounts in thousands)

	<u>2009</u>	<u>2008</u>	<u>Amount</u>	<u>Percent</u>
Cash flows from operating activities	\$ (55,395)	\$ (46,307)	\$ (9,088)	19.6%
Cash flows from noncapital financial activities	62,518	52,800	9,718	18.4%
Cash flows from capital financing activities	(21,665)	(7,717)	(13,948)	180.7%
Cash flows from investing activities	<u>353</u>	<u>873</u>	<u>(520)</u>	-59.6%
Net change in cash	<u>\$ (14,189)</u>	<u>\$ (351)</u>	<u>\$ (13,838)</u>	

Capital Asset and Debt Administration

Overall, invested in capital assets increased \$1,805,459 due to the nearly completed new student center which opened in September 2009 and will be capitalized in 2010. Future construction projects include a new Godwin Center and library with anticipated completion dates of May 2011 and June 2011 respectively.

As calculated under the State Council of Higher Education in Virginia's formula, the University's 2009 debt service to expenditures ratio was 2.19%. This ratio measures the University's ability to satisfy its long-term debt as it becomes due. No new long-term debt was issued in 2009.

Overall, unpaid construction and other related contractual commitments on capital projects decreased from \$21,003,253 in 2008 to \$5,302,815 in 2009. Construction in progress on these contracts totaled \$23,427,056 as of June 30, 2009.

Economic Outlook

As one of Virginia's comprehensive higher education institutions, the University's economic outlook is closely tied to the Commonwealth. Economic factors related to the Commonwealth can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR). There is a direct correlation between the amount of state appropriations and establishment of tuition and fees. As such, it is largely dependent upon ongoing financial and political support from the state government. State appropriations currently cover 50 percent of operating expenses, excluding auxiliary activities and depreciation. To offset projected shortfalls for fiscal year 2009, the University's Board of Visitors approved an overall increase of 3.0% in tuition and fees for in-state undergraduates.

The University's financial position remains strong in spite of an overall decrease of \$2,332,096 in net assets for the 2009 fiscal year. Due to a revenue shortfall in the Commonwealth, the state decreased the University's general fund and capital appropriations in 2009. Student tuition and fees and auxiliary enterprise revenues increased as a result of enrollment growth and rate increases and provided a partial offset for the declining capital appropriations. The decreases in appropriations were further offset by an increase in invested in capital assets.

Management continues to evaluate and review current policies and procedures in an effort to enhance operational efficiency and fiscal stability while providing excellent services to its students and constituents. Our goals, priorities and vision are reflected throughout the University's strategic plan, most specifically in the areas of enhancing student success, funding, facilities and grounds and organizational effectiveness. Resources will continue to be closely monitored to ensure its ability to counter unknown internal and external issues.

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NORFOLK STATE UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2009

ASSETS

	Norfolk State University	Component Units
Current assets:		
Cash and cash equivalents (Note 2)	\$ 16,223,026	\$ 1,591,703
Cash held for securities lending (Note 2)	2,618,118	-
Short-term investments (Note 2)	3,141,166	-
Accounts receivable, Net of allowance for doubtful accounts of \$322,349 (Note 3)	1,975,485	458,983
Contributions Receivable, Net of allowance for uncollectible contributions of \$118,925	-	723,135
Due from the Commonwealth	2,797,901	-
Prepaid expenses	250,490	67,164
Notes receivable, Net of allowance for doubtful accounts of \$71,844	217,334	-
Unamortized bond issuance expense	114,059	1,626,980
Other assets	-	195,324
Total current assets	27,337,579	4,663,289
Noncurrent assets:		
Restricted cash and cash equivalents (Note 2)	7,903,893	3,330,842
Appropriation available/due from primary government	1,491,800	-
Investments (Note 2)	-	16,442,193
Contributions receivable	-	1,337,159
Notes receivable, Net of allowance for doubtful accounts of \$1,854,230	1,936,829	-
Nondepreciable capital assets (Note 4)	33,729,256	545,384
Depreciable capital assets, net (Note 4)	113,178,017	27,417,209
Total noncurrent assets	158,239,795	49,072,787
Total assets	185,577,374	53,736,076

LIABILITIES

Current liabilities:		
Accounts payable and accrued expenses (Note 5)	9,642,837	736,497
Deferred revenue	4,380,403	340,331
Obligations under securities lending	5,759,284	-
Deposits held in custody for others	1,671,466	-
Long-term liabilities - current portion (Note 6)	5,601,223	50,000
Total current liabilities	27,055,213	1,126,828
Noncurrent liabilities (Note 6)	42,689,049	35,640,515
Total liabilities	69,744,262	36,767,343

NET ASSETS

Invested in capital assets, Net of related debt	104,792,832	(3,835,427)
Restricted for:		
Nonexpendable:		
Permanently restricted	-	7,169,609
Expendable	5,804,392	9,343,569
Unrestricted	5,235,888	4,290,982
Total net assets	\$ 115,833,112	\$ 16,968,733

The accompanying Notes to Financial Statements are an integral part of this statement.

NORFOLK STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2009

	Norfolk State University	Component Units
Operating revenues:		
Student tuition and fees, Net of scholarship allowances of \$7,724,054	\$ 23,981,815	\$ -
Gifts and contributions	-	1,297,525
Federal grants and contracts	14,539,991	-
State grants and contracts	1,631,188	-
Nongovernmental grants and contracts	1,822,519	-
Public service	475,308	-
Auxiliary enterprises, Net of scholarship allowances of \$9,213,948	25,197,258	-
Other operating revenues	344,019	4,520,344
Total operating revenues	67,992,098	5,817,869
Operating expenses		
Instruction	34,653,815	-
Research	7,427,989	-
Public service	1,298,254	-
Academic support	16,788,573	-
Student services	5,741,634	-
Institutional support	11,755,049	5,635,465
Operation and maintenance - Plant	10,166,460	1,188,697
Depreciation	9,515,054	1,097,792
Student aid	15,219,158	731,897
Auxiliary activities (Note 8)	19,705,427	-
Total operating expenses (Note 9)	132,271,413	8,653,851
Operating gain (loss)	(64,279,315)	(2,835,982)
Nonoperating revenues (expenses):		
State appropriations (Note 10)	51,335,654	-
Investment income net of investment expense	349,510	(1,706,332)
Interest on capital asset - related debt	(1,942,233)	(1,409,447)
Gifts	379,315	4,960,590
Pell grants	10,931,012	-
Transfers to the Commonwealth	(221,812)	-
Other non-operating revenue	15,718	120
Net nonoperating revenues (expenses)	60,847,164	1,844,931
Increase (decrease) before other revenues, expenses, gains or losses	(3,432,151)	(991,051)
Capital appropriations	-	-
Capital bond proceeds	5,155,244	-
Capital reversion	(4,481,662)	-
Capital gifts and grants	426,473	-
Contributions to permanently restricted endowments	-	673,692
Net other revenues	1,100,055	673,692
Increase (decrease) in net assets	(2,332,096)	(317,359)
Net assets - Beginning of year	118,165,208	17,286,092
Net assets - End of year	\$ 115,833,112	\$ 16,968,733

The accompanying Notes to Financial Statements are an integral part of this statement.

NORFOLK STATE UNIVERSITY
STATEMENT OF CASH FLOW
For the Year Ended June 30, 2009

Cash flows from operating activities:	
Student tuition and fees	24,032,191
Grants and contracts	18,193,977
Public service	475,308
Auxiliary enterprises	25,417,090
Other receipts	549,674
Payments to employees	(49,307,753)
Payments for fringe benefits	(16,661,429)
Payments for services and supplies	(17,398,687)
Payments for utilities	(4,656,102)
Payments scholarships and fellowships	(24,205,899)
Payments for noncapitalized plant improvements and equipment	(11,755,777)
Collections of loans from students	10,153,346
Loans issued to students	(10,230,802)
Net cash used by operating activities:	<u>(55,394,863)</u>
Cash flows from noncapital financing activities:	
State appropriations	51,335,654
Direct lending receipts	42,173,771
Direct lending payments	(42,409,126)
Agency receipts	1,400,385
Agency payments	(707,242)
Pell Grant receipts	10,931,012
Transfers to the Commonwealth	(221,812)
Other non-operating revenues	15,718
Net cash provided by noncapital financing activities	<u>62,518,360</u>
Cash flows from capital financing activities:	
Capital reversion	(4,481,662)
Capital gifts	426,476
Proceeds from bond issues	5,155,244
Purchase of capital assets	(17,251,127)
Principal paid on capital debt, leases, and installments	(3,566,538)
Interest paid on capital debt, leases, and installments	(1,947,828)
Net cash provided capital financing activities	<u>(21,665,435)</u>
Cash flows from investing activities:	
Interest on investments	349,510
Payment of bond issue cost	3,225
Net cash provided by investing activities	<u>352,735</u>
Net increase in cash	(14,189,203)
Cash and cash equivalents - Beginning of the year	<u>38,316,122</u>
Cash and cash equivalents - End of the year	<u>\$ 24,126,919</u>

Reconciliation of Net Operating Loss to Net Cash
used by operating activities:

Operating loss	\$ (64,279,315)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	9,515,054
Changes in assets and liabilities:	
Receivables, net	285,513
Due from the Commonwealth	(2,466,919)
Notes receivable, net	(287,370)
Prepaid expenses	125,048
Accounts payable and accrued expenses and securities lending obligation	1,023,045
Deferred revenue	302,535
Deposits held in custody of others	387,546
Net cash used by operating activities	<u>\$ (55,394,863)</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**NORFOLK STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Norfolk State University (the "University") is a comprehensive university that is part of the Commonwealth of Virginia's statewide system of public higher education. The University's Board of Visitors, appointed by the Governor, is responsible for overseeing governance of the University. A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, higher education institutions, boards, commissions, and authorities over which the Commonwealth exercises, or has the ability to exercise, oversight authority. The University is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

The Norfolk State University Foundation, Inc., and Subsidiary, the Athletics Foundation of Norfolk State University, Inc. and the Enterprise and Empowerment Foundation at Norfolk State University meet criteria under GASB Statement No. 39 qualifying them as component units of the University.

The Norfolk State University Foundation, Inc and its wholly owned subsidiary, Marshall Avenue Properties, Inc. is a legally separate, not-for-profit organization established to provide financial support to Norfolk State University.

The Athletics Foundation of Norfolk State University, Inc. is a legally separate, not-for-profit charitable organization governed by a local Board of Directors dedicated to raising funds for the benefit, scholarship, and educational needs of students attending and participating in athletic programs at Norfolk State University.

The Enterprise and Empowerment Foundation is a legally separate, not-for-profit charitable organization governed by a Board of Directors dedicated to raising funds for a development called the Marie V. McDemmond Center for Applied Research. The development is organized around a public private partnership and is designed to create a digital village that acts as a hub for the Hampton Roads region's technology-led economic development agenda.

Complete financial statements for the component units can be obtained by writing the Assistant Vice President for Advancement/Fiscal Officer for Foundations, Norfolk State University Foundation, c/o University Advancement, 700 Park Ave., Suite 410, Norfolk, VA, 23504.

Although the University does not control the timing or amount of receipts from the foundations, the majority of resources or income thereon that the foundations hold and invest is restricted to the activities of the University by the donors. These restricted resources held by the foundations can only be used by, or for the benefit of the University. Therefore, the foundations are considered component units of the University and are discretely presented in the financial statements.

During the year ended June 30, 2009 the Norfolk State University Foundation and the Norfolk State Athletic Foundation made distributions of \$379,315.33 to or on behalf of the University for both restricted and unrestricted purposes.

B. Basis of Presentation

The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Government*, and GASB Statement 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*. The University follows Statement 34 requirements for “reporting by special purpose governments engaged only in business-type activities.” The financial statement presentation provides a comprehensive entity-wide look at the University’s financial activities and replaces the fund-group perspective previously reported.

Effective with fiscal year 2009, the University implemented GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and GASB Statement 52, *Land and Other Real Estate Held as Investments by Endowments*. Statement No. 49 establishes standards for accounting and financial reporting for pollution remediation obligations. Statement No. 52 establishes standards for accounting and financial reporting for land and other real estate held as investments by endowments. Endowments include permanent and term endowments, and permanent funds.

The foundations are private, non-profit organizations that report under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the foundation’s financial information in the University’s financial reporting entity for these differences.

C. Basis of Accounting

The University’s financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Bond premiums and discounts are deferred and amortized over the life of the debt. All significant intra-agency transactions have been eliminated.

The University’s accounting policies conform with generally accepted accounting principles as prescribed by GASB, including all applicable GASB pronouncements, as well as applicable FASB statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Cash and Cash Equivalents

In accordance with the GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, definition, cash and cash equivalents consist of cash on hand, money market funds, and temporary highly liquid investments with an original maturity of three months or less.

E. Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, purchased investments, interest bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value. All investment income, including changes in the fair value of investments (unrealized gains and losses), are reported as non-operating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

F. Prepaid Expenses

Prepays are reported using the purchase method whereby purchases are recorded as expenses when acquired and adjusted for unused benefits at the end of the fiscal year. As of June 30, 2009, the University's prepaid expenses included items such as insurance premiums, advertising, and publication subscriptions, which include initial and renewal annual subscriptions for technical and professional publications.

G. Receivables

Receivables consist of tuition and fee charges to students and auxiliary enterprises' sales and services. Receivables also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to grants and contracts. Receivables are recorded net of estimated uncollectible amounts.

H. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment and infrastructure assets such as parking lots, sidewalks, campus lighting, and computer network cabling systems. The University generally defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost except for land acquired prior to 1979, which is valued at appraisal value. Library materials are valued using published average prices for library acquisitions. Donated capital assets are recorded at the estimated fair market value at the date of contribution. Expenses for major capital assets and improvements are capitalized (construction-in-progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized. The University has reviewed its capital assets for Impairment using criteria set forth in GASB 42, *Impairment of Capital Assets*, and has no Impaired assets at year end.

Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. Useful lives by asset categories are listed below:

- Buildings - 30 years
- Other improvements and infrastructure – 8 to 25 years
- Equipment – 4 to 20 years
- Library materials - 5 years

The University's art collections are held for public exhibition, education, and research in furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for, and preserved; and are subject to University policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection. Since these conditions exist and historical cost data for the collections are not available; in accordance with GASB Statement 34, no balances are reported in the accompanying financial statements.

I. Noncurrent Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or replacement reserve funds or to purchase or construct capital and other non-current assets are classified as non-current assets in the Statement of Net Assets.

J. Deferred Revenue

Deferred revenue represents monies received, but not earned as of June 30, 2009. This primarily includes amounts received for tuition and fees and certain auxiliary activities in advance of the academic term as well as advance payments on grants and contracts that have not been spent or earned before the end of the fiscal year.

K. Accrued Compensated Absences

The amount of leave earned, but not taken by non-faculty salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects, as of June 30, all unused vacation leave, sabbatical leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave payout policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

L. Non-current Liabilities

Non-current liabilities include principal amounts of bonds payable and notes payable with contractual maturities greater than one year, as well as estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

M. Federal Financial Assistance Programs

The University participates in federally-funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study, and Perkins Loan programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

N. Net Assets

GASB Statement 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets, not fund balances. Accordingly, the University's net assets are classified as follows:

Invested in capital assets, net of related debt – consists of total investment in capital assets, net of accumulated depreciation and outstanding debt obligations.

Restricted Net Assets – Expendable – represents funds that have been received for specific purposes and the University is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external parties.

Unrestricted Net Assets – represents resources derived from student tuition and fees, state appropriations, unrestricted gifts, interest income, and sales and services of educational departments and auxiliary enterprises.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense toward restricted resources and then toward unrestricted. Restricted funds remain classified as such until restrictions have been satisfied.

O. Revenue and Expense Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship allowances; and (3) federal, state, and nongovernmental grants and contracts.

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts, and other revenue sources that are defined as non-operating revenues by GASB Statement 9, and GASB Statement 34, such as state appropriations and investment and interest income.

Non-operating expenses include interest on debt related to the purchase of capital assets and state appropriation reversions. All other expenses are classified as operating expenses.

P. Scholarship Discounts and Allowances

Student tuition and fees revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenue, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs are recorded as either operating or non-operating revenues in the University's financial statements. To the extent that such revenues are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the University are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody and investment of State funds. Certain deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Securities for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia, or covered by depository insurance. Under this Act, banks holding public deposits in excess of amounts insured by FDIC must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of the State Treasury board. Savings institutions are required to collateralize 100 percent of deposits in excess of FSLIC limits. In accordance with GASB Statement 9 definition of cash and cash equivalents, cash represents Cash with the Treasurer, cash on hand, cash deposits including certificates of deposit, and temporary investments with original maturities of three months or less. Cash equivalents also include the Virginia State Non-Arbitrage Program (SNAP). SNAP is an open-end management investment company registered with the federal Security and Exchange Commission.

The carrying amount of cash not held by the Treasurer of Virginia is \$2,932,771. The carrying amount is the University's bank balance reported at June 30, 2009 for the University's energy lease project activity, deposits held in custody for others and drawdowns from bonds for the Student Center construction project. The Virginia Security for Public Deposits Act eliminates any custodial credit risk for the University.

A. Investments

The investment policy of the University is established by the Board of Visitors and monitored by the Board's Audit and Finance Committee. Authorized investments are set forth in the Investment of Public Funds Act of the Code of Virginia, Sections 2.2-4500 through 2.2-4516. Authorized investments include Certificates of Deposit, Commercial Paper, Bankers Acceptances, Repurchase Agreements, Agency Notes and Bonds, and Treasury Bills. The University's investments are in investment pools held by the Treasurer of Virginia and are not categorized as to levels of risk. Investments fall into two groups: short and long-term. Short-term investments have an original maturity of over 90 days but less than or equal to one year.

GASB Statement 40, *Deposit and Investment Risk Disclosures*, requires the following risk disclosures:

Concentration of credit risk – Concentration of credit risk requires the disclosure by amount and issuer of any investments in any one issuer that represents five percent or more of total investments. As of June 30, 2009, none of the University's investments involve concentration of credit risk.

Custodial Credit Risk – The custodial credit risk is the risk that, in the event of failure of the counterparty, the University would not be able to recover the value of its investment or collateral securities that are in the possession of the outside party. All investments are registered and held in the name of the University and therefore, the University does not have this risk.

Interest rate risk – The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University limits its exposure to interest rate risk by limiting the maximum maturity lengths of investments and structuring the portfolio to maintain adequate liquidity to ensure the University's ability to meet its operating requirements.

Foreign currency risk – Foreign currency is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The University does not have investments in foreign currency.

B. Securities Lending Transactions

Securities lending transactions represent the College's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Loaned securities, for which the collateral is reported on the Statement of Net Assets, are non-categorized as to credit risk. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies. Details of the General Account securities lending program are included in the Commonwealth's *Comprehensive Annual Financial Report*.

C. Credit & Concentration of Credit Risks

<u>Cash equivalents:</u>	<u>Fair Value</u>	<u>0-3 months</u>	<u>Credit Rating</u>
Repurchase agreements	\$ 3,234,316	\$ 3,234,316	AAA
Money market funds	850,976	850,976	A-1
SNAP	6,441,582	6,441,582	AAAm
Securities lending	2,618,118	2,618,118	Unrated
<u>Investments:</u>			
Securities lending	<u>3,141,166</u>	<u>3,141,166</u>	Unrated
Totals	<u>\$16,286,158</u>	<u>\$ 16,286,158</u>	

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2009:

Student tuition and fees	\$1,084,362
Federal, state, and nongovernmental grants and contracts	770,809
Other activities	<u>442,663</u>
Gross receivables	2,297,834
Less: Allowance for doubtful accounts	<u>(322,349)</u>
Net accounts receivable	<u>\$1,975,485</u>

Contributions Receivable – Norfolk State University Foundation

Pledges receivable represent pledges made by individuals, corporations, and organizations for various purposes. The following details the timing of expected receipts on pledges receivable at June 30, 2009:

Contributions currently due	\$ 723,135
Less – allowance for uncollectible pledges	<u>(118,925)</u>
Current contributions receivable	<u>604,210</u>
Contributions due in one to five years	796,116
Contributions due in more than five years	808,335
Less – time value discount	<u>(148,367)</u>
Non-current contributions receivable	<u>1,456,084</u>
Total contributions receivable	<u>\$ 2,060,294</u>

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2009, is presented as follows.

	Beginning Balance <u>July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>June 30, 2009</u>
Nondepreciable capital assets:				
Land	\$ 4,786,099	\$ -	\$ -	\$ 4,786,099
Construction in progress	<u>8,648,332</u>	<u>21,846,304</u>	<u>1,551,479</u>	<u>28,943,157</u>
Total nondepreciable capital assets	<u>13,434,431</u>	<u>21,846,304</u>	<u>1,551,479</u>	<u>33,729,256</u>
Depreciable capital assets:				
Buildings	194,162,547	2,193,234	-	196,355,781
Infrastructure	5,394,616	-	-	5,394,616
Equipment	28,364,107	1,926,929	468,033	29,823,003
Other improvements	60,823	-	-	60,823
Library materials	<u>7,300,736</u>	<u>438,096</u>	<u>301,902</u>	<u>7,436,930</u>
Total depreciable capital assets	<u>235,282,829</u>	<u>4,558,259</u>	<u>769,935</u>	<u>239,071,153</u>
Less accumulated depreciation for:				
Buildings	87,877,004	5,761,117	-	93,638,121
Infrastructure	4,959,658	130,154	-	5,089,812
Equipment	17,830,720	3,373,733	468,035	20,736,418
Other improvements	24,675	3,622	-	28,297
Library materials	<u>6,455,962</u>	<u>246,428</u>	<u>301,902</u>	<u>6,400,488</u>
Total accumulated depreciation	<u>117,148,019</u>	<u>9,515,054</u>	<u>769,937</u>	<u>125,893,136</u>
Depreciable capital assets, Net	<u>118,134,810</u>	<u>(4,956,795)</u>	<u>(2)</u>	<u>113,178,017</u>
Total capital assets, Net	<u>\$131,569,241</u>	<u>\$16,889,509</u>	<u>\$1,551,477</u>	<u>\$146,907,273</u>

Capital Assets - Component Units

	NSU Foundation Inc.	The Athletics Foundation of Norfolk State University, Inc.	Enterprise and Empowerment Foundation at Norfolk State University	Total
Nondepreciable capital assets:				
Land	\$ 24,310	\$ -	\$ -	\$ 24,310
Development Costs	-	-	521,074	521,074
Total nondepreciable capital assets	24,310	-	521,074	545,384
Depreciable capital assets:				
Buildings	-	-	28,137,869	28,137,869
Equipment	766,244	36,502	2,197,381	3,000,127
Total depreciable capital assets	766,244	36,502	30,335,250	31,137,996
Less accumulated depreciation	(341,055)	(19,827)	(3,359,905)	(3,720,787)
Total depreciable capital assets, net	425,189	16,675	26,975,345	27,417,209
Total capital assets, net	\$ 449,499	\$ 16,675	\$ 27,496,419	\$ 27,962,593

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2009:

Vendors and suppliers accounts payable	\$4,993,111
Employee salaries, wages, and fringe benefits payable	4,230,383
Accrued interest payable	14,282
Spartan Suites rent and scholarships	405,061
Total accounts payable and accrued liabilities	<u>\$9,642,837</u>

6. NONCURRENT LIABILITIES

The University's non-current liabilities consist of long-term debt (further described in Note 7) and other non-current liabilities. A summary of changes in non-current liabilities for the year ending June 30, 2009, is presented as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Current <u>Portion</u>
Long-term debt:					
Bonds payable	\$11,087,506	\$ -	\$1,824,356	\$9,263,150	\$1,914,648
Notes payable	20,875,618	-	384,186	20,491,432	398,636
Installment Purchases	13,286,333	-	1,270,559	12,015,774	1,215,042
Unamortized Bond Premium	353,485	-	12,625	340,860	12,625
	<u>45,602,942</u>	<u>-</u>	<u>3,491,726</u>	<u>42,111,216</u>	<u>3,540,951</u>
Accrued compensated absences	3,628,632	1,418,389	1,491,147	3,555,874	975,320
Capital projects retainage payable	339,522	1,019,327	339,522	1,019,327	1,019,327
Federal loan capital contributions	1,486,576	-	-	1,486,576	-
Deferred gain on early retirement of debt	182,904	-	65,625	117,279	65,625
	<u>182,904</u>	<u>-</u>	<u>65,625</u>	<u>117,279</u>	<u>65,625</u>
Total long-term liabilities	<u>\$ 51,240,576</u>	<u>\$ 2,437,716</u>	<u>\$ 5,388,020</u>	<u>\$ 48,290,272</u>	<u>\$ 5,601,223</u>

7. LONG TERM DEBT

Norfolk State University has issued two categories of bonds pursuant to Section 9 of Article X of the *Constitution of Virginia*. Section 9 (d) bonds are revenue bonds, which are limited obligations of the University payable exclusively from pledged general revenues and are not debt of the Commonwealth, legally, morally, or otherwise. Pledged general fund revenues include general fund appropriations, tuition and fees, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose. The University issued the 9(d) bond directly through underwriters and also participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority (VCBA) also issues 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University and various other institutions of higher education. The University's general revenue also secures these notes.

Section 9(c) bonds are general obligation bonds issued by the Commonwealth of Virginia on the behalf of the University, which are secured by the net revenues of the completed project and the full faith, credit, and taxing power of the Commonwealth of Virginia.

The University entered into a deed of bargain and sale with the City of Norfolk for the acquisition of the Brambleton Center. The note is payable in six full scholarships each year varying from \$4,953 to \$9,771 with the final amount due in 2019.

At June 30, 2009, installment purchases consist of the current and long-term portions of obligations resulting from various contracts used to finance the acquisition of equipment. The length of the purchase agreements are for five years and the interest rates charged are from 2.151 percent to 3.9218 percent.

		Interest Rates (%)	Maturity	Balance at June 30, 2009
Revenue bonds:				
Dormitories:				
	Charles Smith Hall Series 2003 (c)	5.500 - 5.000	2010	\$ 316,596
	Midrise Hall Series 2003 (c)	5.500 - 5.000	2011	1,424,011
	Phyllis Wheatley & Rosa Alexander 1985 (d)	3.00	2022	1,806,269
Athletic Facility:				
	Dick Price Stadium Series 1996 (d)	5.000 - 5.375	2018	5,095,000
Cafeteria:				
	Mary Scott Dozier Series 2003 (c)	5.500 - 5.000	2011	621,274
	Total revenue bonds			9,263,150
	Unamortized bond premium			340,860
	Net revenue bonds			\$ 9,604,010
Notes payable:				
	Brambleton Center, Series 1998		2019	251,682
	Student Center 2004 (d)	3.25 - 5.00	2036	20,425,000
	Total notes payable			20,676,682
	Less: Unamortized bond discount			(185,250)
	Net notes payable			\$ 20,491,432
Installments payable:				
	MELP	2.151 - 3.9218	2012	326,315
	Energy Lease Project	3.739 - 4.500	2016 - 2021	11,534,711
	Dyntek Server Farm Lease	8.25	2011	154,748
	Net installments payable			12,015,774
	Total			\$ 42,111,216

Long term debt matures as follows:

Long term debt matures as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2010	3,542,664	1,834,437
2011	3,089,378	1,685,796
2012	2,074,219	1,551,068
2013	2,122,063	1,461,574
2014	2,215,122	1,368,290
2015-2019	11,029,737	5,317,489
2020-2024	5,687,422	3,390,250
2025-2029	4,285,000	2,381,197
2030-2034	5,385,000	1,262,294
2035-2036	2,525,000	121,244
Unamortized Premium	340,861	0
Unamortized Discount	(185,250)	0
Total	<u>\$ 42,111,216</u>	<u>\$ 20,373,639</u>

Enterprise and Empowerment Foundation Debt

In February 2005, the Enterprise and Empowerment Foundation entered into an agreement to finance the construction of a 620-bed student housing facility. The terms of the agreement obligate the Foundation pursuant to \$32,000,000 Tax-Exempt Variable Rate Demand Qualified 501(c)(3) Bonds Series 2005. The terms of the indenture call for varying annual maturities through July 1, 2034, with a variable interest rate determined based on the flexible weekly rate as determined by the remarketing agent; principal payments are due semiannually starting January 1, 2008. On June 30, 2009 interest was computed based on an annualized weekly rate of 1.31 percent. The terms of the agreement require a debt service coverage ratio of at least 1.2:1 beginning July 1, 2006.

Notes payable to bank, interest at LIBOR plus 1.5% due monthly, principle payments to be escrowed by the Foundation beginning July 1, 2008 through July 1, 2015, secured by property and equipment is \$1,500,000.

As of June 30, 2009, the Enterprise and Empowerment Foundation's bonds and notes payable mature as follows:

Future principal payments are as follows:

2010	\$ 50,000
2011	70,000
2012	130,000
2013	185,000
2014	255,000
Thereafter	<u>32,735,000</u>
	<u>\$ 33,425,000</u>

The bonds payable bear interest at a variable interest rate based on the flexible weekly rate as determined by the remarketing agent. To minimize the effect of changes in the variable rate, the Foundation entered an interest rate swap contract with a notional amount of \$32,000,000 with a term of 29 years. The contract pays interest at a fixed 3.733% rate and receives interest at 67% of LIBOR. The net interest loss of \$1,409,477 from changes in the swap contract's fair value during the fiscal year is included as interest on capital asset related debt in the Statement of Revenues, Expenses and Changes in Net Assets. The contract includes a provision for three optional early termination periods between January, 2016 and January, 2018.

8. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses are distributed as shown in the following table for the year ended June 30, 2009. Additionally, the University used auxiliary revenues to pay debt service of \$2,342,121. This amount is not included in the auxiliary operating expenses below.

Revenues:

Residential, net of scholarship allowances of \$2,376,582	\$ 6,499,207
Athletics, net of scholarship allowances of \$2,593,936	7,093,602
Food services, net of scholarship allowances of \$1,699,722	4,648,205
Auxiliary enhancement, net of scholarship allowances of \$514,888	1,408,057
Student activities, net of scholarship allowances of \$536,484	1,467,116
Other auxiliary revenues, net of scholarship allowances of \$1,492,336	<u>4,081,071</u>

Total auxiliary enterprises revenues	<u>\$25,197,258</u>
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Expenses:

Residential	\$ 4,800,679
Athletics	6,877,529
Food services	3,668,315
Auxiliary enhancement	619,583
Student activities	1,533,602
Other auxiliary expenses	<u>2,205,719</u>

Total auxiliary enterprises expenses	<u>\$19,705,427</u>
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9. EXPENSES BY NATURAL CLASSIFICATIONS

The following table shows a classification of expenses both by function as listed in the Statement of Revenues, Expenses, and Changes in Net Assets and by natural classification, which is the basis for amounts shown in the Statement of Cash Flows.

	Salaries and Wages	Fringes Benefits	Services and Supplies	Scholarship and Fellow ship	Utilities	Plant and Equipment	Depreciation	Total
Instruction	\$ 24,104,226	\$ 7,050,135	\$ 2,326,586	\$ 12,515	\$ -	\$ 1,160,353	\$ -	\$ 34,653,815
Research	2,727,781	705,051	1,637,318	805,115	-	1,552,724	-	\$ 7,427,989
Public Service	722,178	121,944	328,216	2,100	-	123,816	-	\$ 1,298,254
Academic Support	7,647,006	2,442,608	2,686,957	80,788	-	3,931,214	-	\$ 16,788,573
Student Services	3,406,275	1,188,796	896,305	26,679	-	223,579	-	\$ 5,741,634
Institutional Support	8,484,741	2,955,409	(1,976,348)	691,119	1,202,586	397,542	-	\$ 11,755,049
Operation and Maintenance-Plant	3,977,819	1,748,389	1,204,350	-	2,251,687	984,215	-	\$ 10,166,460
Depreciation	-	-	-	-	-	-	9,515,054	\$ 9,515,054
Scholarship and Fellow ship	-	-	-	15,219,158	-	-	-	\$ 15,219,158
Auxiliary Activities	5,203,015	1,693,583	6,502,517	4,551,775	915,911	838,626	-	\$ 19,705,427
Other	-	-	-	-	-	-	-	\$ -
Total	<u>56,273,041</u>	<u>17,905,915</u>	<u>13,605,901</u>	<u>21,389,249</u>	<u>4,370,184</u>	<u>9,212,069</u>	<u>9,515,054</u>	<u>132,271,413</u>

10. STATE APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursements. The following is a summary of education and general state appropriations received by the University including all supplemental appropriations and reversions:

Original legislative appropriation:

Educational and general programs	\$46,786,432
Student financial assistance	6,340,407

Adjustments:

Appropriation Reduction	(2,044,145)
Salary annualization, increases & regrades	(234,607)
Employer fringe benefit decreases	(30,932)
Eminent Scholar	29,989
Virginia Military Survivors and Dependents	30,250
Tuition Incentive Fund	453,535
VIVA ILL allocation	<u>4,725</u>

Adjusted appropriation	<u>\$51,335,654</u>
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11. COMMITMENTS

At June 30, 2009, the University was committed to construction contracts totaling approximately \$24,678,101. Outstanding commitments on these contracts totaled \$5,302,815 as of June 30, 2009.

The University is committed under various operating leases for equipment and facilities. In general, the leases are for a one-year term and the University has renewal options on equipment and facilities for another one-year term. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense for the fiscal year ended June 30, 2009, was \$1,681,522.

The City of Newport News lease contains an escalation clause, which allows for a base rent adjustment every two years. The percentage increase is equal to one-half of the percentage increase of the consumer price index for the corresponding period.

Norfolk State University has as of June 30, 2009, the following total future minimum rental payments due under the above leases:

<u>Year</u>	<u>Operating Lease Obligation</u>
2010	\$ 1,051,456
2011	909,183
2012	702,271
2013	714,161
2014	722,389
2015-2019	3,460,716
2020-2023	<u>476,367</u>
Total	<u>\$ 8,036,543</u>

12. RETIREMENT PLANS

Virginia Retirement System

Employees of the University are employees of the Commonwealth of Virginia. Substantially all full-time classified salaried employees of the University participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). VRS is an agent multiple-employer public employee retirement system (PERS) that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's *Comprehensive Annual Financial Report* (CAFR). The Commonwealth of Virginia, not the University, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2009. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled approximately \$4,024,166 for the year ended, June 30, 2009. The retirement contribution rate was 11.23 percent for fiscal year 2009. Contributions to VRS were calculated using the base salary amount of approximately \$35,834,067 for the year ended June 30, 2009. The University's total payroll was approximately \$57,036,145 for the fiscal year ended June 30, 2009.

Optional Retirement Plans

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by two different providers rather than the VRS. The two different providers are TIAA/CREF Insurance Companies and Fidelity Investments. This plan is a fixed-contribution program where the retirement benefits received are based upon the employer's (5.4 percent) and employee's (5.0 percent) contributions, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions. Total pension costs under this plan were approximately \$1,237,242 for year ended June 30, 2009. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$11,896,558 for fiscal year 2009.

Deferred Compensation Plan

State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to \$20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately \$26,010 for the fiscal year 2009.

13. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS-administered statewide group life insurance program, which provides post-employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of state service and participate in the state's health plan. Information related to these plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report*.

14. CONTINGENCIES

Grants and Contracts

The University has received grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditures of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the University.

In addition, the University is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2009, the University estimates that no material liabilities will result from such audits or questions.

Litigation

To its knowledge, the University has not been named as a defendant in a lawsuit and has no legal liability.

15. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report*.

16. COMPONENT UNITS

STATEMENT OF NET ASSETS

	NSU Foundation Inc.	The Athletics Foundation of Norfolk State University, Inc.	Enterprise and Empowerment Foundation at Norfolk state University	Total
Assets:				
Current assets	\$ 1,537,054	\$ 89,028	\$ 3,037,207	\$ 4,663,289
Noncurrent assets	18,085,882	159,644	30,827,261	49,072,787
Total assets	<u>19,622,936</u>	<u>248,672</u>	<u>33,864,468</u>	<u>53,736,076</u>
Liabilities:				
Current liabilities	36,302	10,295	1,080,231	1,126,828
Noncurrent liabilities	47,682	-	35,592,833	35,640,515
Total liabilities	<u>83,984</u>	<u>10,295</u>	<u>36,673,064</u>	<u>36,767,343</u>
Net Assets	<u>\$ 19,538,952</u>	<u>\$ 238,377</u>	<u>\$ (2,808,596)</u>	<u>\$ 16,968,733</u>

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	NSU Foundation Inc.	The Athletics Foundation of Norfolk State University, Inc.	Enterprise and Empowerment Foundation at Norfolk state University	Total
Operating revenues	\$ 83,423	\$ 236,552	\$ 5,497,894	\$ 5,817,869
Operating expenses	2,124,106	363,124	6,166,621	8,653,851
Operating gain	<u>(2,040,683)</u>	<u>(126,572)</u>	<u>(668,727)</u>	<u>(2,835,982)</u>
Net nonoperating revenues	3,136,657	117,721	(1,409,447)	1,844,931
Income (loss) before other revenues, expenses, gains or losses	<u>1,095,974</u>	<u>(8,851)</u>	<u>(2,078,174)</u>	<u>(991,051)</u>
Net other revenues	<u>673,692</u>	<u>-</u>	<u>-</u>	<u>673,692</u>
Increase (Decrease) in net assets	1,769,666	(8,851)	(2,078,174)	(317,359)
Net assets - Beginning of year	<u>17,769,286</u>	<u>247,228</u>	<u>(730,422)</u>	<u>17,286,092</u>
Net assets - End of year	<u>\$ 19,538,952</u>	<u>\$ 238,377</u>	<u>\$ (2,808,596)</u>	<u>\$ 16,968,733</u>

The following note was included in the audited financial statements for the Enterprise and Empowerment Foundation:

CONTINGENCY: As shown in the accompanying consolidated financial statements, the Foundation incurred a decrease in net assets of \$2,078,174 during 2009 and a decrease in net assets of \$540,592 during 2008. Additionally, for 2009 and 2008, the Foundation was not in compliance with its debt service ratio covenant which necessitated the obtaining of a waiver. These factors create an uncertainty as to the Foundation's ability to continue as a going concern. The Foundation has developed a plan to increase revenues, reduce expenses, and manage compliance with its debt covenants. The ability of the Foundation to continue as a going concern is dependent upon the success of the plan. The consolidated financial statements do not include any adjustments that might be necessary should the Foundation be unable to continue as a going concern.

NORFOLK STATE UNIVERSITY
AUXILIARY ENTERPRISES STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2009

	Total	Food Services	Residential Services	Student Activities	Auxiliary Security	Student Center	Athletics
REVENUES							
Student Fees	15,476,841	-	-	1,800,292	1,221,851	887,251	8,345,795
Sales and Services	18,414,364	6,347,927	8,862,884	203,308	-	42,230	1,341,743
Investment Income	520,001	-	12,905	-	-	-	-
Other Fund Additions	-	-	-	-	-	-	-
TOTAL REVENUES & OTHER FUND ADDITIONS	34,411,206	6,347,927	8,875,789	2,003,600	1,221,851	929,481	9,687,538
EXPENSES OF OPERATIONS							
Personal Service	5,006,933	-	1,519,908	80,545	382,226	248,117	2,060,618
Fringe Benefits	1,693,582	-	560,852	461	119,783	75,587	645,271
Supplies and Material	1,164,647	77,647	488,143	133,463	9,017	54,588	272,834
Equipment/Property Improvement	1,630,872	35,308	383,300	4,031	-	265,796	50,303
Current Charges and Obligations	1,570,900	173,236	853,652	55,926	3	116,957	69,501
Scholarships and Fellowships	4,466,908	547	887,981	593,821	-	-	2,984,559
Contractual Services	11,777,372	5,081,299	1,716,629	975,549	346,404	182,385	2,304,670
Subtotal	27,311,215	5,368,037	6,410,465	1,843,795	857,433	943,430	8,387,757
E & G Indirect Costs	2,164,821	-	678,753	195,225	90,787	99,892	888,113
Auxiliary Administration	(11,645)	-	88,043	31,066	11,776	12,955	195,595
Total Expense of Operations	29,464,391	5,368,037	7,177,261	2,070,086	959,995	1,056,278	9,471,465
Nonoperating Revenue							
Gifts and Grants	260,979	-	-	21,966	-	-	239,013
EXCESS OF REVENUE OVER (UNDER)							
EXPENSES OF OPERATION	5,207,794	979,890	1,698,528	(44,519)	261,856	(126,797)	455,086
MANDATORY TRANSFERS							
Debt Service	(2,342,121)	-	(1,287,881)	-	-	-	-
Nonmandatory Transfers	404,530	-	19,294	55,507	-	759,766	22,913
NET INCREASE (DECREASE)							
IN FUND BALANCE	3,270,204	979,890	429,941	10,987	261,856	632,969	477,999
Fund Balance Beginning of Year	10,029,219	2,557,828	1,380,700	13,783	(156,449)	381,436	(1,130,169)
Fund Balance End of Year	13,299,421	3,537,718	1,810,641	24,770	105,407	1,014,405	(652,170)

Auxiliary Administration	Parking and Transportation	Contingency Fund	Printing Services	Fitness Center	Communication Systems Enhancement	Auxiliary Enhancement	Debt Service	Maintenance Reserve
-	284,814	440,751	-	124,760	176,589	954,815	1,239,923	-
10,420	598,771	-	478,860	960	5	527,256	-	-
66,222	-	-	-	-	-	440,874	-	-
-	-	-	-	-	-	-	-	-
76,642	883,585	440,751	478,860	125,720	176,594	1,922,945	1,239,923	-
252,201	360,812	-	35,984	66,522	-	-	-	-
141,430	115,367	-	19,445	15,386	-	-	-	-
51,404	22,229	-	48,275	1,780	-	5,267	-	-
307,350	10,993	-	4,671	7,177	-	2,058	-	559,885
-	1,755	-	297,512	-	-	2,359	-	-
-	-	-	-	-	-	-	-	-
142,644	94,377	23,327	119,604	5,810	119,532	645,788	19,354	-
895,029	605,533	23,327	525,491	96,675	119,532	655,472	19,354	559,885
-	64,115	-	55,640	10,236	12,656	69,403	-	-
(818,387)	25,545	-	29,197	1,328	1,642	409,596	-	-
76,642	695,193	23,327	610,328	108,239	133,830	1,134,471	19,354	559,885
-	-	-	-	-	-	-	-	-
-	188,392	417,424	(131,468)	17,481	42,764	788,474	1,220,569	(559,885)
-	-	-	-	-	-	-	(1,054,240)	-
39,469	1,860	(1,068,282)	-	14,116	-	-	-	559,886
39,469	190,252	(650,858)	(131,468)	31,597	42,764	788,474	166,329	1
18,937	1,236,779	3,489,148	(832,230)	212,057	144,057	2,486,794	226,549	(1)
58,406	1,427,031	2,838,290	(963,698)	243,654	186,821	3,275,268	392,878	-

NORFOLK STATE UNIVERSITY HIGHLIGHTS

FIVE YEARS IN REVIEW

FALL SEMESTER	2004-05	2005-06	2006-07	2007-08	2008-09
ENROLLMENT					
Total	6,165	6,096	6,238	6,155	6,325
In-State	4,516	4,533	4,806	4,844	5,149
Out-of-State	1,649	1,563	1,432	1,311	1,176
FRESHMAN APPLICATIONS					
Number of Applications Received	4,090	4,807	4,538	4,656	4,748
In-State	1,483	2,133	1,603	1,672	1,816
Out-of-State	2,607	2,674	2,935	2,984	2,932
Number of Applications Accepted	3,116	3,300	4,453	3,132	3,238
In-State	1,152	1,154	1,562	1,178	1,287
Out-of-State	1,964	2,146	2,891	1,954	1,951
Number of Accepted Enrolled	1,010	1,001	1,057	995	1,188
In-State	656	676	806	719	867
Out-of-State	354	325	251	276	321
TRANSFER APPLICATIONS					
Number of Applications Received	849	784	827	843	935
In-State	383	392	405	438	513
Out-of-State	466	392	422	405	422
Number of Applications Accepted	727	693	750	744	818
In-State	327	347	361	383	440
Out-of-State	400	346	389	361	378
Number of Accepted Enrolled	364	374	362	358	366
In-State	238	268	293	280	298
Out-of-State	126	106	69	78	68
GRADUATE APPLICATIONS					
Number of Applications Received	245	322	330	328	310
In-State	151	213	205	207	218
Out-of-State	94	109	125	121	92
Number of Applications Accepted	277	296	297	279	261
In-State	138	199	187	182	186
Out-of-State	89	97	110	97	75
Number of Accepted Enrolled	244	213	266	237	195
In-State	182	161	148	164	159
Out-of-State	62	52	118	73	36
TUITION AND FEES					
Undergraduate					
In-State	\$4,295	\$4,670	\$5,056	\$5,322	\$5,560
Out-of-State	\$14,255	\$14,480	\$15,376	\$16,242	\$16,807
Graduate					
In-State	\$6,803	\$6,308	\$6,820	\$7,182	\$7,658
Out-of-State	\$18,155	\$18,380	\$20,572	\$21,726	\$22,457
ROOM AND BOARD					
Total Room & Board	\$6,236	\$6,474	\$6,667	\$6,909	\$7,116
Room Rates	\$3,942	\$4,110	\$4,233	\$4,402	\$4,534
Board Rates	\$2,294	\$2,364	\$2,434	\$2,507	\$2,582

UNRESTRICTED CURRENT FUND REVENUES, EXPENDITURES, AND OTHER CHANGES
Years Ended June 30

	2004-05	2005-06	2006-07	2007-08	2008-09
Revenues					
Student Tuition and Fees	\$28,636,502	\$30,476,595	\$ 29,278,424	\$ 26,918,139	\$ 29,158,740
State Appropriations	40,430,511	43,899,220	45,228,371	46,130,592	44,935,008
Gifts, Grants, & Contracts	350,671	1,516,663	1,759,600	3,252,547	2,634,783
Sales and Services Auxiliary Enterprises	25,021,455	23,946,966	29,974,852	31,811,785	34,257,210
Other Sources	<u>532,468</u>	<u>105,112</u>	<u>118,448</u>	<u>670,751</u>	<u>764,540</u>
Total Current Revenues	\$94,971,607	\$99,944,556	\$ 106,359,695	\$108,783,814	\$ 111,750,281
Expenditures & Mandatory Transfers					
Educational & General	\$70,386,806	\$77,187,002	\$ 78,038,294	\$ 77,934,136	\$ 76,704,401
Auxiliary Enterprises	<u>25,085,251</u>	<u>21,118,240</u>	<u>24,959,044</u>	<u>27,411,548</u>	<u>30,777,965</u>
Total Expenditures & Mandatory Transfers	95,472,057	100,608,553	105,203,627	107,715,017	109,824,486
Other Transfers and Additions (Deductions)	<u>2,028,474</u>	<u>(46,730)</u>	<u>2,993,059</u>	<u>279,380</u>	<u>11,157</u>
Net Increase (Decrease) in Fund Balances	<u>\$ 1,528,024</u>	<u>\$ (710,727)</u>	<u>\$ 4,149,127</u>	<u>\$ 1,348,176</u>	<u>\$ 1,936,952</u>
 GENERAL FUND APPROPRIATIONS AND OTHER REVENUES					
State General Fund Appropriations	\$40,430,511	\$43,899,220	\$ 45,228,371	\$ 46,130,592	\$ 44,935,008
Other Revenues	<u>54,541,096</u>	<u>56,045,336</u>	<u>61,131,324</u>	<u>62,653,222</u>	<u>66,815,273</u>
Total	<u>\$94,971,607</u>	<u>\$99,944,556</u>	<u>\$ 106,359,695</u>	<u>\$108,783,814</u>	<u>\$ 111,750,281</u>
 FINANCIAL AID					
Loans	\$22,709,984	\$23,776,885	\$ 26,155,567	\$ 38,193,866	\$ 48,990,167
Grants/Scholarships	21,542,284	23,672,516	26,958,998	24,928,123	27,709,624
Other	<u>1,142,483</u>	<u>1,247,069</u>	<u>1,305,008</u>	<u>652,649</u>	<u>1,008,823</u>
Total	<u>\$45,394,751</u>	<u>\$48,696,470</u>	<u>\$ 54,419,573</u>	<u>\$ 63,774,638</u>	<u>\$ 77,708,614</u>



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

June 17, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Norfolk State University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Norfolk State University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2009, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the University's that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component units of the University as of June 30, 2009, and the respective changes in

financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Auxiliary Enterprises Statement of Operations, Norfolk State University Highlights, and Unrestricted Current Fund Revenues, Expenditures, and Other Changes schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with Government Auditing Standards, we have also issued our report dated June 17, 2010 on our consideration of Norfolk State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.


AUDITOR OF PUBLIC ACCOUNTS

TAS/clj

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Norfolk, Virginia

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*Represents Board of Visitors and University Administrators as of June 30, 2009